


Personal Income Tax

Prof.Asoc.Dr. Etleva Bajrami




Income tax structure


- The object of personal income tax is the income of individuals.
- This tax is important for its role in the state budget, as a source of income.
- Personal income tax has a large impact on the income of individuals.

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- In some countries, the same rate is applied to the income of individuals, called flat tax, regardless of high or low salary.
 - True progressivity of the personal income tax uses broad income grading.
 - Differentiations between different economic categories and stronger exemptions against some categories are needed while economic development increases economic differences.

Types of systems of income tax


- For the structure of personal income tax, there are several theoretical models such as the schedule, global and mixed (cooperative) model.
- Taxes, on the other hand, have been present and accompanied the development of human society all along.
- The schedule system was the earliest system where individuals paid according to the activity that brought you income.


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- The global income tax system behaves as a proportional tax imposed on all income.
 - The income tax schedule system sets different tax rates and applies different structures to different categories of income.
 - Gross income and deductible expenses are determined separately for each type of income.
 - In a global system, expenses and income are considered together to achieve the goal of providing net income that is subject to tax.


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- The progressive structure is fairer in taxation according to the ability to pay, but it can only be applied to certain categories of income, leading to inequality between taxpayers who earn different types of income, such as an employed person and a self-employed person with the same income.
 - Today's modern systems are mixed or interactive systems that try to avoid the problems of global proportional and scheduling systems.

Personal income tax and principles

- Personal income tax is one of the main sources of tax revenue of the state.
- Personal income tax is a fairly reliable source of public revenue.
- Most long-term estimates have shown that personal income tax in the event of economic growth tends to increase.

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- The progressive structure personal income tax provides volatile revenues during economic downturns, due to its strong reliance on the incomes of high earners.
 - Personal income tax respects horizontal equality because income taxes are built on the basis of a set of procedures and laws that apply to all taxpayers.
 - Although refunds, deductions, and exemptions may somewhat undermine horizontal equity, income tax is widely recognized as an enhancer of horizontal equity in tax systems.

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- Personal income tax is generally accepted as respecting vertical equality.
 - The personal income tax is the only tax that states intentionally design to be progressive, so including the personal income tax in the total state taxes is seen as reducing the regressivity of the system.

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- The administration is efficient (with the lowest cost) on the part of the tax administration as long as this tax is collected and paid by the employer.
 - Personal income tax is not economically neutral. The very existence of the tax could, in theory, influence individual decisions on whether and how much to work, save and invest.
 - The higher the marginal rate, the more employees are discouraged from working.
 - High capital gains tax rates can discourage investment.

Taxable income in Albania


- Taxable income is the amount of income that is subject to tax after all exemptions have been deducted.
- The exemption can be standard for everyone, which means that all individuals must have a certain amount of non-taxable income.
- For example, according to Albanian legislation, salary income up to the amount of 30,000 ALL is not taxed, only income that exceeds this amount is taxed.
- The exception may also be according to the expenditure items.


Source of income

- Resident individuals are liable for personal income tax during the tax period for all sources of income.
- Non-resident individuals are subject to the obligation for personal income tax during the tax period, for sources of income realized in the territory of the Republic of Albania.
- In order to determine the source income in the Republic of Albania, the country where the activity is carried out is important and not the place where the payment is made, the beneficiary of the income and not the payer is important.

Excluded income

- Some income is exempt from personal income tax.
- Some of these revenues are the revenues that belong to transfers to individuals from the government due to criteria or conditions that are met.
- Income in the form of damages is excluded.

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- Some of the excluded incomes are:
 - Income received as a result of insurance in the mandatory social and health insurance scheme, as well as economic assistance for individuals with no income or with low income, according to the provisions in the relevant legislation in force.
 - Students' scholarships.
 - Rewards received for cases of illness or accidents.

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- Income received, including income in monetary form or in kind, from owners as compensation for expropriations made by the state for public interests.
 - Income received as a result of financial compensation.
 - Income received as compensation for damages from insurance companies.
 - Contributions made by the employer for the life and health insurance of employees.

Annual individual income declaration

- The first criterion for determining the obligation to submit the individual annual income statement for all individual's resident in the Republic of Albania is to have a total gross annual income realized inside and outside the territory of the Republic of Albania of at least 2,000,000 ALL.
- The second criterion is that individuals who are employed by two or more employers have an obligation to complete the annual income statement.